

Petrochemicals Sector

October 05, 2023

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
SABIC	46,868	37,538	(20%)	21%	15%	3,278	1,953	(40%)	1,836	(717)	-	4%	(2%)	0.61	(0.24)
SABIC AGRI-NUTRIENTS	4,417	2,863	(35%)	62%	39%	2,415	840	(65%)	2,331	820	(65%)	53%	29%	4.90	1.72
Tasnee	887	848	(4%)	15%	20%	179	169	(6%)	17	115	569%	2%	14%	0.03	0.17
Yansab	1,595	1,016	(36%)	5%	(6%)	(46)	(123)	(168%)	(61)	(126)	(106%)	(4%)	(12%)	(0.11)	(0.22)
Sipchem	2,939	1,766	(40%)	41%	36%	909	464	(49%)	774	426	(45%)	26%	24%	1.06	0.58
Advanced	657	553	(16%)	14%	22%	55	80	45%	27	59	119%	4%	11%	0.10	0.23
Saudi Kayan	2,596	1,925	(26%)	(19%)	(2%)	(676)	(169)	75%	(812)	(321)	60%	(31%)	(17%)	(0.54)	(0.21)
SIIG	-	-	-	-	-	58	133	129%	55	132	141%	-	-	0.07	0.17
Group Total	59,959	46,510	(22%)			6,172	3,346	(46%)	4,167	388	(91%)				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Whilst 3Q2023 global GDP growth continued, petrochemical prices are still expected to come under pressure, resulting in most of the companies in our coverage estimated to have negative revenue growth Y/Y. China's plans to generate more capacity for petrochemicals in the near future, according to ICIS, is expected to further weigh on prices. However, we believe that 3Q2023 will show improvement Q/Q on the back of lower feedstock prices, such as Propane and Butane. We believe, feedstock prices will expand margins despite the decline in end-products prices. In general, our outlook remains uncertain for 2H23.
- In 3Q2023, Naphtha increased by +7% Q/Q whereas Propane and Butane prices dropped again, both by -11% Q/Q. We believe that this continued decline will have further positive effects on margins. Polypropylene also continued its price decline by -4% Q/Q, while Polyethylene prices buoyed, remaining almost flat Q/Q. With regards to fertilizers, Urea and Ammonia prices were both positive, as Urea averaged at USD 370/per ton in 3Q2023 (up +22% Q/Q), while Ammonia averaged USD 294/per ton (up +7% Q/Q). Also, EVA and VAM witnessed a decline of -9% Q/Q and -14% Q/Q, respectively.
- For 3Q2023, we expect a decline of -22%Y/Y in top line performance for companies under our coverage. In addition, profitability is likely to witness a decline of -91% Y/Y. Hence, we still prefer Petrochemicals to Fertilizers, based on earnings momentum and valuation. However, growth in average prices in Fertilizers is promising. We expect SABIC Agri to generate net income of SAR 820 mln in 3Q23, the first quarter of sequential growth after three consecutive quarterly declines. Yansab is likely to return to an unprofitable state, with margins under pressure in 3Q23 from lower volumes and end-product prices, as well as an emergency shutdown. SABIC is expected to record the financial impact of its sale of HADEED to PIF, resulting in financial losses related to charges derived from its sale. The proceeds of this sale should provide a stronger capital position for SABIC to expand its core chemicals business, which we view as positive overall.

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Banking Sector

Company	Net Commission Income			Net Income			Net Advances			Deposits		
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y
BSF	1,646	2,065	25%	961	1,205	25%	158,481	170,886	8%	157,821	162,556	3%
SAB	1,985	2,698	36%	1,409	1,664	18%	183,160	205,570	12%	202,864	227,208	12%
ANB	1,497	1,722	15%	917	998	9%	145,475	150,985	4%	147,806	160,369	9%
Al Rajhi	5,687	5,288	(7%)	4,355	4,164	(4%)	557,498	592,513	6%	555,767	600,228	8%
Albilad	1,003	1,019	2%	541	597	10%	92,288	99,225	8%	113,985	124,824	10%
Alinma	1,674	2,015	20%	989	1,310	32%	139,987	167,985	20%	132,048	187,509	42%
SNB	6,555	6,931	6%	4,725	5,134	9%	536,176	587,673	10%	596,886	608,231	2%
Group Total	20,046	21,738	8%	13,896	15,071	8%	1,813,065	1,974,837	9%	1,907,178	2,070,925	9%

Source: Riyad Capital, Company Reports (SAR mln)

- In 3Q2023, the Saudi Central Bank (SAMA) raised its key interest rates by +25 bps in July. This translated to an increase in the rate of Repurchase Agreement (Repo) to 600 bps and the rate of Reverse Repurchase Agreement (Reverse Repo) to 550 bps while SAMA left rates unchanged in September.
- SAIBOR 3-M has rallied to a high during the quarter to reach 6.30% on September 10th before coming down and closing 3Q2023 at 6.17%, compared to 5.95% on June 26th, up +205 bps Y/Y and +22 bps Q/Q.
- The Saudi Central Bank's monthly data for July and August 2023 showed a +7% Y/Y and +5% Q/Q increase in profit before zakat and tax to SAR 13.0 bln. Total deposits and total loans increased by double-digit Y/Y but showed a single-digit rise sequentially. Our expectations for banks under our coverage shows a high single-digit growth Y/Y of profits after zakat to SAR 15.1 bln. We expect Alinma to continue its trend Y/Y and registering a +32% growth to SAR 1.3 bln. However, we expect a slight decline of -4% Y/Y for Al Rajhi bank to SAR 4.2 bln driven by higher cost of funding. We expect Alinma to have the highest increase Y/Y in-terms of net advances and deposits of +20% and +42%, respectively.

Cement Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
Yamama	253	306	21%	46%	36%	97	86	(11%)	101	90	(11%)	40%	30%	0.50	0.45
Saudi	328	332	1%	38%	38%	86	84	(2%)	81	75	(7%)	25%	23%	0.53	0.49
Qassim	167	177	6%	23%	30%	28	41	43%	23	41	76%	14%	23%	0.26	0.46
Southern	323	295	(9%)	33%	18%	93	37	(60%)	89	35	(60%)	27%	12%	0.63	0.25
Yanbu	262	229	(12%)	34%	30%	75	51	(33%)	69	45	(35%)	26%	20%	0.44	0.28
Group Total	1,334	1,339	0%			379	298	(21%)	363	287	(21%)				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Volumes have declined for most of the companies under our coverage as compared to 3Q2022. However, we expect the prices to remain healthy Y/Y and Q/Q, which will translate to unchanged growth Y/Y in top-line to SAR 1.3 bln. At the same time, we expect margins to be under pressure. Hence, we expect a -21% decline Y/Y in bottom-line to SAR 287 mln.

Health Care Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
HMG	2,052	2,278	11%	33%	34%	436	507	16%	421	488	16%	21%	21%	1.20	1.39
Mouwasat	549	621	13%	45%	46%	139	164	18%	130	148	14%	24%	24%	1.22	1.42

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Steady growth both from increase in inpatients and outpatients is likely to continue for the 2 healthcare stocks under our coverage on a Y/Y basis. However, on a quarterly basis, both topline and bottomline may face growth challenges as 3Q is likely to be a soft quarter with people travelling outside the country amid summer vacations. We expect HMG and Mouwasat to post a net income of SAR 488 mln and SAR 148 mln, respectively.

Telecom Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
STC	16,468	18,235	8%	61%	51%	4,576	3,427	(25%)	3,542	4,084	15%	22%	22%	0.71	0.82
Mobily	3,828	4,290	12%	60%	58%	524	755	44%	373	584	57%	10%	14%	0.48	0.76
ZAIN KSA	2,403	2,416	6%	60%	61%	246	260	5%	85	296	247%	4%	12%	0.09	0.33
Group Total	22,699	24,941	10%			5,346	4,442	(17%)	4,000	4,964	24%				

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Sector revenues are expected to continue growing on the back of an increase in the number of visitors as well as subscribers with topline of the 3 companies rising by +10% Y/Y. Mobily is likely to lead in terms of revenue growth with an increase of +12% Y/Y followed by STC at +8% Y/Y. Gross margins for STC in 3Q2022 benefitted from a reversal of contingent liability amounting to over SAR 1 billion while the bottomline in the outgoing quarter (3Q2023) is expected to be boosted by SAR 1 billion gains from its land sale. Other than that, gross margins are expected to be stable across the 3 companies. For Zain, we expect SAR 170 million as capital gains from the tower deal. Important to note that Zain did not recognize any gains in 2Q2023. Thus, if these gains are absent in 3Q as well, then the bottomline may be lower. We don't expect any extraordinary items at Mobily but expect decent in the enterprise business while the consumer business would be challenging.

Software & Services Sector

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
SOLUTIONS	2,039	2,755	35%	25%	27%	313	400	27%	300	349	16%	15%	13%	2.50	2.90
Elm	1,167	1,516	30%	42%	43%	272	409	50%	274	403	47%	23%	27%	3.42	5.04

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

- Strong growth in both the IT companies under our coverage is likely to continue on the back of robust expansion, both organic and inorganic, in products and services offered by them. We forecast SOLUTIONS' net income to increase by +16% Y/Y and Elm's net income to increase by +47% Y/Y with both companies expanding margins and having good cash position.

Food & Beverage, Retailing, Utilities, Capital Goods and Materials Sectors

Company	Revenue			Gross Margins		EBIT			Net Income			Net Margins		EPS (SAR)	
	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	Y/Y	3Q2022	3Q2023E	3Q2022	3Q2023E
Almarai	4,769	4,908	3%	31%	31%	579	678	17%	463	522	13%	10%	11%	0.46	0.52
Jarir	2,517	2,921	16%	15%	12%	291	272	(7%)	274	257	(6%)	11%	9%	0.23	0.21
SEC*	22,750	23,432	3%	33%	31%	7,192	7,084	(2%)	6,375	5,172	(19%)	28%	22%	1.53	1.24
BDH	1,183	1,383	17%	26%	30%	(27)	80	-	(48)	54	-	(4%)	4%	(0.04)	0.05
MARAFIQ	1,768	1,715	(3%)	23%	23%	425	347	(18%)	310	224	(28%)	18%	13%	1.24	0.90
Riyadh Cables	1,691	2,042	15%	10%	12%	119	174	46%	92	133	44%	5%	7%	0.62	0.89
MAADEN	10,014	6,757	(33%)	36%	23%	2,954	862	(71%)	2,741	645	(69%)	21%	10%	0.50	0.15
NAHDI	2,159	2,188	1%	42%	41%	279	306	10%	254	273	8%	12%	12%	1.95	2.10
ALDAWAA	1,309	1,445	10%	37%	36%	83	109	31%	48	60	25%	4%	4%	0.57	0.71

Source: Riyadh Capital, Company Reports (SAR mln, except per share data)

* Net Income before Mudaraba Instruments

- Almarai:** We expect a single-digit growth Y/Y in revenue to SAR 4.9 bln driven by the momentum in Poultry and Bakery on the back of higher demand due to back-to-school season as well as the growth in other product categories. We forecast a +13% Y/Y increase in bottom-line to SAR 522 mln.
- Jarir:** We expect a +16% Y/Y growth in top-line driven by back-to-school season as well as new smartphones, which were launched during the quarter while we expect a -6% Y/Y decline in bottom-line to SAR 257 mln versus SAR 274 mln in 3Q2022 due to higher competition, which will likely impact margins.
- SEC:** We expect revenues to grow by +19% Q/Q and by +3% Y/Y to SAR 23.4 bln led by greater consumption. Gross margins are likely to decline by 200bps to 31% for the quarter and close the 2Q2023 level. On lower margins and higher costs, we expect net income to decline -19%.
- BDH:** Continuing with an increase in footfall in the Haramain stores as a result of the higher pilgrims, we expect a +17% growth Y/Y in top-line to SAR 1.4 bln coupled with better margins which will translate to a net income of SAR 54 mln compared to loss of SAR (48) mln in 3Q2022.
- MARAFIQ:** We forecast revenues to rise by +16% on a quarterly basis (due to seasonality) but fall by -3% on an annual basis to SAR 1.7 bln. Despite marginally better gross margins, we expect bottomline to decline due to higher costs Y/Y.
- Riyadh Cables:** We expect RCGC's topline to continue to grow by +7% Q/Q and +15% Y/Y to SAR 2.04 bln for the quarter while margins should also grow. Bottomline is likely to incline by +44% Y/Y to SAR 133 mln with net margins expanding by 130bps Y/Y to 6.5%.
- MAADEN:** The Company would continue to be impacted by significantly lower product prices Y/Y, particularly that of Phosphate and Aluminium. In line with Y/Y decline in 2Q2023, we expect revenues to be -33% lower Y/Y and net income to decline by -69% Y/Y.
- NAHDI:** We expect revenues to remain roughly flat, coming in slightly lower by -1.9% Q/Q but up +1.4% Y/Y. Gross margins, while slightly lower than last year, are expected to remain stable and comparable to last quarter at ~41% of total revenues. Operating profit is expected to follow a positive trend, increasing by +10% Y/Y to SAR 306 mln.
- ALDAWAA:** We expect growth of +10% Y/Y in top-line to SAR 1.4 bln due to higher sales, supported by demographic trends and management's continued execution.

■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than - 15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors
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